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June 20, 1996

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JUN 20 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

BY HAND

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

Re: CS Docket No. 96-60
Ex Parte Presentation

Dear Mr. Caton:

On behalf of ValueVision International, Inc. ("ValueVision"), and pursuant to Section 1.1206 of the Commission's rules, this notice is filed in duplicate to notify the Commission that on June 19 representatives of ValueVision met with Lynn Crakes, Edward C. Gallick, Julia C. Buchanan, and Rodney McDonald to discuss the issues raised in ValueVision's comments and reply comments filed in this proceeding and the issues raised by the attached articles.

If there are any questions concerning the above-referenced matter, please communicate with the undersigned.

Sincerely yours,

William R. Richardson, Jr.

cc: Lynn Crakes
Edward C. Gallick
Julia C. Buchanan
Rodney McDonald

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JUN 20 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Ops Plumb Ancillary Ad Revenue Streams

By LESLIE GOFF

Ancillary services, from simple photoclassified channels to sophisticated infomercial-production services, are contributing increasingly to the bottom line for local cable ad sales, generating as much as 25 percent of its revenue.

To pursue these ancillary ad dollars, operators are adopting a number of enterprising, highly localized, new sales strategies.

In Fort Myers, Fla., for instance, the Jones Intercable Inc. system generated $15 per subscriber in non-spot ad revenue, mostly by selling local-origination programming, such as a pet show produced with the local Humane Society.

Falcon Cable in Carolina Beach, N.C., a tourist area, publishes an advertiser-supported local programming guide that netted a 40 percent profit margin in its first year and has subscribers lining up to receive copies on the first of each month.

A Coaxial Communications system in Columbus, Ohio, produces local sports programming during which it sells everything but the kitchen sink: the signage, the halftime show, the clock, the scoreboard and even the truck that takes the production gear to the game.

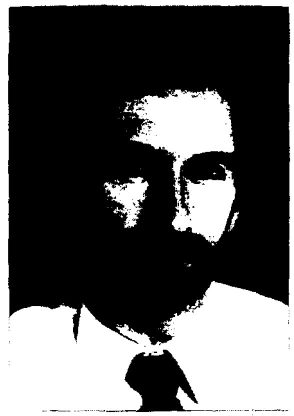
Photoclassified channels, direct-mail coupons, short- and long-form infomercial production, spot production, The Weather Channel crawls and local-origination programming are among the ancillary ad services that local systems are developing to shore up against encroaching competition from MMDS, direct-broadcast satellite services and the telcos.

Ancillary services spawn new ad revenue streams and, perhaps more importantly, draw in new advertisers by appealing to the more budget-conscious small-business owner. Services such as photoclassified channels and direct-mail coupons have brought in a range of new establishments, from carpet cleaners and copy shops to real estate companies and restaurants. Most are smaller mom-and-pop shops that can't easily afford a 30-second spot.

"We can go after even the really small customers who have advertising budgets of $500 and below," said Kevin Shannon, sales manager for direct media at the interconnect Cable Advertising of Metro Atlanta. CAMA's ancillary product sales make up 12 percent of total ad revenue, led by low-cost photoclassified and community bulletin-board channels.

"We joke around that this is all minor league, as opposed to 'the show,' the on-air spots, but when you add up all the ancillary products, they make a major contribution to the bottom line," Shannon said.

SHANNON



COWLES

OTHER BENEFITS

Although ancillary services garner margins of only about 30 percent, as compared to an average 65 percent return on spot sales, they provide other, incremental benefits to systems, according to William Gilbert, Coaxial's vice president of advertising sales and new business. For one, smaller advertisers frequently step up to more expensive services if they see results.

Gilbert noted, for instance, that the local gas company became a major spot advertiser after sponsoring a real estate program on a local-origination channel, and that several businesses that bought space in CableSaver, a direct-mail coupon book, have purchased other ad services as well. The system derives about 27 percent of its ad revenue from ancillary services, including 7 percent that comes from five different local real estate programs.

Moreover, by spreading ad revenue streams over a broader base of local industries, overall ad revenue is not as vulnerable to economic swings in any one market segment.

"It dilutes the impact of what historically has been a volatile revenue base in automotive advertising," says Jerry Czuchna, vice president of ad sales for Englewood, Colo.-based Jones. "Ten years ago, automotive made up a very large part of any cable system's revenue stream, and that market has a lot of spikes and valleys."

Jones earns 18 to 21 percent of its ad revenue from ancillary services.

Some anecdotal evidence even suggests that in smaller markets, certain ancillary services can boost subscriber retention and engender goodwill with community leaders. Falcon Cable systems in several states — Missouri, Kentucky, Alabama, Georgia and North Carolina — are producing local shopping guides featuring 5- to 15-minute infomercials on area merchants and restaurants and similar programming built around tourist attractions.

BUILDING GOODWILL

"With local-programming formats, we can offer something our competitors can't," said Ovie Cowles, Falcon's vice president of ad sales. "And if we can put local citizens on the air, it helps us meet our community responsibilities, and that helps with the local franchising boards."

Spurred by increasing competition, many systems are now exploring how they can leverage their ancillary ad services not only to expand their advertiser base, but also their market reach beyond the limits of their subscriber base.

"We're facing competition from MMDS [wireless cable], DBS and, soon, from the phone company, Ameritech [Corp.], which is overbuilding our system," Gilbert said. "So, we're doing things to position ourselves differently than just a network provider."

REACHING NONSUBS

Setting up an ancillary-services strategy that is nonsubscriber-related is imperative, Czuchna agreed. "With competition, there's a good chance that we'll start losing penetration, rather than gaining it," he said. "So we have to give the advertiser other mediums to reach the community."

Direct-mail couponing is one potential medium for attracting new advertisers and reaching nonsubscribers.

Jones, for instance, bundles multiple merchant coupons in a Val-Pak-type mailing, in addition to selling bill inserts. CAMA, which already does more than $400,000 worth of business in bill-insertable couponing, is considering a new, customized, ZIP code-based couponing program that would align advertisers with specific cable households. That program is offered by CSG Systems Inc. in Omaha, Neb.

"That's nearly a half-million dollar business for us now, so it would be worth the extra investment," Shannon said. "The coupons would still be bill inserts, but we'd be able to localize it, making it available to more advertisers in a single billing cycle." MCN

THE WALL STREET JOURNAL MONDAY, JUNE 3, 1996

ADVERTISING

History Channel Blurs the Line With Sponsors

By SALLY GOLL BEATTY
Staff Reporter of THE WALL STREET JOURNAL

When the History Channel unveils a new series called "The Spirit of Enterprise," cable viewers will get a rare inside look at some of corporate America's giants, including AT&T, DuPont and General Motors.

But the series will be serving up a singular version of history. Each company is co-producing the hour-long profile of itself, helping to fund the show and agreeing to buy ads during the series. And the History Channel is allowing each company to review its profile before it goes on television and veto anything it doesn't like.

Even at a time when infomercial producers are blurring the boundaries between shows and ads, people in the entertainment business are voicing surprise about the History Channel's project. After all, the channel is an acclaimed producer of serious documentaries and commentary, whose owners include the corporate parents of ABC and NBC.

"As a marketing device, [an advertiser] would love nothing better than to have a commercial masquerading as straightforward, objective history," says Jonathan Klein, an executive vice president with CBS News. "But if you run something called the History Channel, it's important that people understand that, at least in the case of these documentaries, what they're getting is official company history, not objective history."

At the History Channel, officials are unapologetic about their foray into the annals of corporate America, and insist the results won't compromise the channel's standards.

"If at any point there's a fear we're not telling the story in an objective way we may make certain demands to make sure that's done," says Greg Jones, the channel's vice president of public affairs. He says the channel will scrap an episode if it's not happy with the results. And he says the series is planning to carry a statement – to be determined later – telling viewers about the companies' participation.

For now, it looks like the channel and the corporations share a common vision of the series, slated for airing late this year or early 1997. "This isn't investigative reporting; we're not trying to go in there and tell what's wrong," says Whitney Goit, executive vice president of sales and marketing at A&E Television Networks, which owns the History Channel.

"Business history is written by academics, or maybe the liberal press, and they say GM breaks strikes, and [they write about] DuPont and the environment," adds Mr. Goit, who came up with the idea for "The Spirit of Enterprise." But the story of American business, "is by and large a pretty positive story."

Mr. Goit says each co-producing company is expected to buy ads during the series – though not during the episode about itself. Otherwise, he says, "it might look like a program-length commercial, and it isn't. It's a historical show."

For their part, the profile subjects are playing down their control of the series' contents. "The most important thing we're concerned about is that it's correct and factual and that's what we would be looking for," says DuPont spokeswoman Cathy Andriadis.

"Our policy is not to get involved in the creative process," says Phillip Guarascio, vice president in charge of advertising at GM. "I just think the subject matter is interesting subject matter for a select audience that isn't easy to reach in other forms."

Other companies in the series include American Express, Boeing and Anheuser-Busch. "It's an opportunity to tell Amex's history . . . explained to an audience that is consistent with our demographics," says Gail Wasserman, a spokeswoman for American Express, who says the company might wind up using its profile for employee orientation.

"If it's successful it could create an awareness that could lead people to make different buying decisions, but that's not our primary objective," says an AT&T spokesman Mark Siegel. More broadly, he says, "it gives us the opportunity to show the connections between AT&T and the development of American culture as a whole, specifically the way the technology that AT&T has brought to the market has in every sense made the modern world as we know it possible."

The project comes amid growing praise for the History Channel, which set out in January 1995 to win affluent, educated viewers with high-quality, mostly nonfiction TV programming. It has 19.2 million subscribers, representing just under one-third of all cable households. And it has been adding about a million subscribers a month, making it among the fastest growing of the newer cable channels.

The channel doesn't disclose financial results but it says that it has more than 100 regular advertisers, and that its ad revenues are healthy and growing. That is good news for parent A&E's three owners: Hearst and Walt Disney's ABC unit, which each hold 37.5%, and General Electric's NBC, which holds the remaining 25%.

Mr. Jones, the History Channel vice president, says about the new series, "We're positioning this as something very, very new in the realm of co-ventures. This is a horse of a different color, and it's a color that hasn't been used before."

THE WALL STREET JOURNAL TUESDAY, JUNE 4, 1996

ADVERTISING

CNBC Will Air A Show Owned, Vetted by IBM

By SALLY GOLL BEATTY
Staff Reporter of THE WALL STREET JOURNAL

NBC yesterday unveiled plans for "Scan," a new cable TV project it hailed as a first of its kind: a series about technology's impact on people's lives to be aired in markets around the world.

Moreover, the network has landed one of the world's biggest-spending advertisers – **International Business Machines**–as the series' exclusive worldwide sponsor. But in return, IBM will own the show outright and have final say over its content.

"At the very end of the day, if we see something that we really don't want aired, of course we have final veto," says Marianne Caponnetto, IBM's world-wide director of media strategy and operations.

The announcement is just the latest example of the increasingly muddy boundaries between commercials and TV shows. The critically acclaimed History Channel soon will produce "The Spirit of Enterprise," a new series on the history of some of America's biggest companies. Each company in that series is co-producing its profile, helping to fund the project, agreeing to buy ads during the series and reviewing content before it goes on television for possible veto.

"It brings into question, is there truly a separation of church and state?" asks Page Thompson, U.S. media director of the DDB Needham ad agency in New York, referring to "Scan." "And are these shows going to be labeled advertising? The lines are blurring right now."

"Scan" explicitly echoes the theme of IBM's current multimillion-dollar ad campaign "Solutions for a Small Planet," which is all about the way technology changes people's lives around the world.

The program will air on the network's CNBC cable channel in the U.S. and on its networks in Asia, Europe and Latin America.

Among the first subjects "Scan" will cover is how Vatican priests digitize ancient texts to put them on the Internet, and how Bangkok businessmen use computers to cope with their notorious traffic jams. Those topics have both been the subjects of ads in the IBM campaign, developed by ad agency Ogilvy & Mather Worldwide, a unit of WPP Group of the U.K.

Mr. Thompson, of DDB Needham, says he expects advertisers everywhere to demand similar cozy arrangements. "God bless 'em, they're coming up with ideas and the networks are going for it. They've evolved the infomercial. This is just a forerunner of what we're going to see as we get to 500 channels. Every client will have their own programming tailored to their own needs, based on their ad campaign."

At NBC, a unit of **General Electric**, officials insist that "Scan" will meet high standards. The series "is not an infomercial for IBM," says Steven Carter, executive vice president in charge of advertising sales at NBC Cable & International. "It has to be editorially pure. One of the mainstays of NBC and General Electric is integrity. We're very concerned as we develop this program that it follow all the practices and standards of the network."

In fact, the production of "Scan" will be unusual. Mr. Carter said a board consisting of executives from IBM, Ogilvy & Mather, NBC Cable & International and the show's independent producer Globe TV, will meet regularly to discuss the show's development. "We review editorial possibilities and content and decide on subjects that will be attractive to a global viewing audience," says Mr. Carter. "Getting the impact from a global advertising agency like Ogilvy and a global marketer like IBM is a huge advantage to us."

Other ad professionals worry that NBC could be going too far in its work with IBM. "CNBC fills a vast amount of their program time with paid programming. This is no different in my mind," says Jon Mandel, senior vice president and director of national broadcasting at Grey Advertising. "You just have to be careful when you do it; the consumer will know when something is too patently an informercial. . . . You have to be careful you don't turn off more people than you turn on."

Facing a similar quandary, Cable News Network has just taken a different tack from NBC. American Airlines approached CNN with an idea for a news show for U.S. business travelers abroad, featuring weather and news bulletins. The show, set to begin airing in September, will feature American as the sole airline sponsor, and CNN says the word "American" may even be in the title.

But the network says the airline won't have any control over the show's contents. CNN senior vice president Eason Jordan says he "can't imagine" that CNN would offer an advertiser veto power over a program. "Programming has to be credible or we have lost all that matters in journalism," says Mr. Jordan.

IBM marketers say they'll be sure "Scan" stays credible. "One of the requirements of the show is that it be generic," says IBM's Ms. Caponnetto. "This is not going to be an IBM program. We want an objective view, because that's what's of value to the viewer."

She acknowledges that the subject of "Scan" is generally similar to the subject of IBM's current ad campaign. "Sure it's global, it's multicultural, it focuses on the human dimension and the impact of technology on people's lives. We know people are interested in that, so we really want to focus on all aspects of a person's life and how technology will impact that. And that's something we do in our ad campaign," Ms. Caponnetto says.

As for the priests and the Bangkok businessmen, "they're not the same folks," she says.

Ad Notes. . . .

AGENCY ACQUISITION: As part of an ongoing diversificaton binge, McCann-Erickson Worldwide, a division of the **Interpublic Group**, said it has reached an agreement in principal to acquire **Torre Renta Lazur Healthcare Group**, a Parsippany, N.J.-based ad agency specializing in the medical industry. Torre Renta Lazur had billings last year of \$184.5 million and revenue of \$20 million. Terms weren't disclosed.